Real Estate News

GLORIA BANNISTER-HANRATH
sales representative

DIRECT. 613.324.4214 **OFFICE.** 613.592.6400
GloriaBannister@royallepage.ca

ROYAL LEPAGE
Team Realty
Independently Owned and Operated, Brokerage

OSFI to Drop Mortgage Stress Test for Uninsured Borrowers Who Switch Lenders at Renewal

Yet another change is in the pipeline for Canadian mortgage holders in 2024.

The Office of the Superintendent of Financial Institutions (OSFI) revealed last month that it will eliminate the mortgage stress test for uninsured borrowers who plan to switch lenders upon renewing their loan. The borrower, however, must keep the same amortization schedule and current loan amount. In practice, removing the test for renewing borrowers would encourage banks to offer more competitive rates to retain current customers, and make it easier for those with uninsured mortgages to change lenders. The new rules would take effect on November 21st, 2024.

"There are two primary reasons for this change. First, we are listening to what we have heard from industry and from Canadians about the imbalance between insured and uninsured mortgagors at the time of mortgage renewal," said an OSFI spokesperson via email to the Toronto Star. "Second, when we look at the data over time, we have observed that the prudential risks that this was intended to address have not significantly materialized. As a prudential regulator we enable banks and lenders to compete and take reasonable risks."

What are the current stress test rules, and how are they changing?

When a homebuyer takes out a mortgage loan with a federally regulated financial institution, they must pass the stress test to prove that they can cope with higher monthly payments in the event that interest rates were to rise or their income were to be reduced.

Under current rules, the minimum qualifying rate for uninsured mortgages is the mortgage contract rate plus 2%, or 5.25%, whichever is greater. Mortgage insurance is not required on loans with a down payment of 20% or more.

When an uninsured mortgage term comes up for renewal, under current rules, the borrower would be required to pass the stress test again if they intended to trade their current lender for a new one. In cases of a "straight switch," where the borrower's amortization schedule and loan amount stays the same, passing the stress test is still required. When OSFI's updated policy takes effect on November 21st, uninsured borrowers will forgo any additional stress testing when their mortgage comes up for renewal if they plan to make a straight switch.

Those with insured mortgages – mandatory with a down payment of less than 20% – are not subject to the stress test if they are making a straight switch, as their mortgage insurance already protects the new lender from potential missed payments.

This latest change to mortgage financing rules quickly follows the federal government's recent announcement to expand eligibility for 30-year amortizations on insured mortgages to all first-time homebuyers, and increase the mortgage insurance cap to $1.5 million, which will take effect on December 15th.

Ottawa's MLS® Home Sales Healthy Amid a Shifting Market

Members of the Ottawa Real Estate Board (OREB) sold 1,047 residential properties in September 2024. This was an increase of 11.4% from September 2023.

"As we navigate a shifting housing market, Ottawa's fall outlook is healthy," says OREB's President. "Activity is robust with an uptick in sales and prices remaining steady. Meanwhile, both buyers and sellers are rethinking their purchasing power amidst news about additional interest rate cuts on the horizon, longer amortizations, and increased price caps for insured mortgages."

"There have been encouraging policy developments recently that will stimulate demand," says OREB's President. "But Ottawa's market does not typically have demand problems — we have chronic supply issues. We're not building enough homes in the city, and we're not building enough of the right homes to address the 'missing middle.'"

The overall MLS® HPI composite benchmark price was $642,800 in September 2024, an increase of 0.2% from September 2023.

The benchmark price for single-family homes was $729,000, up 0.5% on a year-over-year basis in September.

By comparison, the benchmark price for a townhouse/row unit was $500,000 down 1.7% compared to a year earlier.

The benchmark apartment price was $414,200, down 1.3% from year-ago levels.

Call today for real estate advice and information!

Understanding the 2024 Mortgage Rule Changes

In an effort to make homeownership more accessible, the federal government of Canada recently introduced significant changes to mortgage regulations that will take effect in December 2024. These new rules are designed to give buyers, particularly first-time homebuyers, a better chance at entering the housing market despite current high interest rates and soaring home prices. Here's what you need to know about the 2024 mortgage rule changes and how they will affect your buying power.

Key Changes to the Mortgage Rules

The most important changes coming this December revolve around longer amortizations for insured mortgages and a higher cap on insured mortgage amounts. These reforms are expected to provide relief to many Canadians looking to purchase a home in today's challenging housing market.

30-Year Amortizations for Insured Mortgages

Previously, most insured mortgages in Canada were limited to 25-year amortizations. Starting in December 2024, first-time homebuyers and buyers of new builds will have the option to extend their amortizations to 30 years. This change will allow borrowers to stretch out their mortgage payments over a longer period, reducing monthly payments and improving affordability, especially in high-priced markets.

For example, extending a mortgage amortization from 25 years to 30 years could reduce monthly payments by up to 10%. This longer amortization is essentially similar to a 0.90% cut in mortgage rates, giving buyers a substantial financial advantage.

Increased Mortgage Insurance Cap

The second major change is the increase in the mortgage insurance cap. Currently, the cap sits at $1 million, meaning buyers purchasing homes above this amount are not eligible for high loan-to-value mortgage insurance. As of December 2024, this cap will rise to $1.5 million. This is particularly important for homebuyers in expensive markets like Toronto, Vancouver, and other major cities where the average home price often exceeds the $1 million mark.

The new rules will allow buyers to purchase homes up to $1.5 million with just a $125,000 down payment, compared to the $300,000 required for uninsured borrowers. This significantly lowers the barrier for many first-time buyers, making it easier to secure financing for higher-priced homes.

Who Benefits the Most?

These changes are designed with specific buyers in mind. First-time homebuyers, buyers of new builds, and those looking for higher-priced homes will benefit most from the new rules.

Here's Why:

First-Time Homebuyers: Extending the amortization period from 25 to 30 years lowers monthly payments, giving first-time buyers more flexibility and the ability to afford homes they may not have been able to under the previous rules. Lower monthly payments also make it easier for buyers to manage other financial obligations such as student loans or credit card debt.

Buyers in Expensive Markets:

With the mortgage insurance cap rising from $1 million to $1.5 million, buyers in high-cost regions like Vancouver or Toronto now have access to homes previously out of reach. The reduced down payment requirements mean they can secure financing without needing to save an enormous upfront amount.

New Home Buyers:

If you're purchasing a newly built home, you can also benefit from the extended amortization periods, provided the loan-to-value ratio is 80% or higher. Newly constructed homes or condos with interim occupancy periods will still qualify, making it easier for buyers to navigate today's unpredictable market.

How to Prepare for the Changes

If you're planning to buy a home in the near future, it's a good idea to start preparing now:

Evaluate Your Budget:

With the potential for lower monthly payments, you may be able to afford a more expensive home. However, it's essential to ensure you're still within a comfortable budget, especially if interest rates rise in the future.

Save for a Down Payment:

If you're eyeing a home priced above $1 million, the changes to the insured mortgage cap will reduce the amount you need for a down payment. Be ready to take advantage of this by saving as much as possible.

Conclusion

The upcoming mortgage rule changes in 2024 represent a significant shift in how Canadians can approach home buying. By extending amortization periods and raising the mortgage insurance cap, these changes will make homeownership more attainable for many buyers, especially in high-cost markets. As the Canadian housing market evolves, these reforms could be key in making your dream of homeownership a reality. Stay informed and consult with professionals to make the most of these new opportunities.